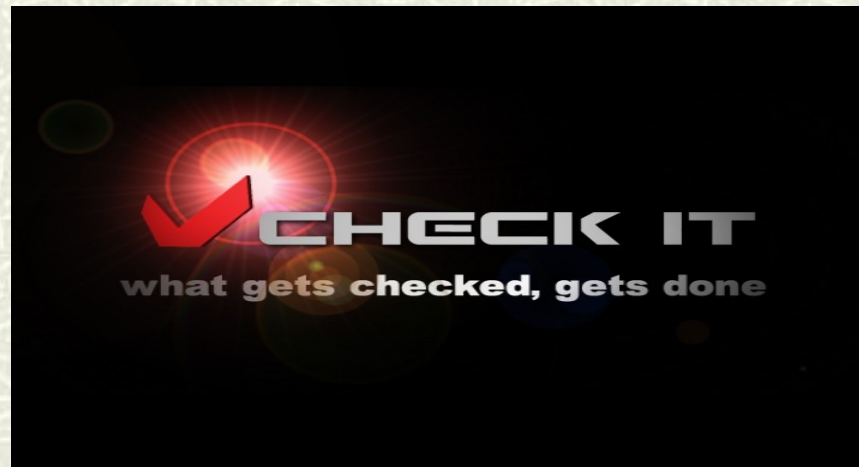




USAFMCOM OPERATIONAL SUPPORT TEAM



INTERNAL CONTROL



United States Army Financial Management Command
Operational Support Team

01 December 2012



Action, Condition, Standards



TASK ACTION: Conduct Internal Control Operations.

TASK CONDITION: Given a requirement to conduct IC operations in a contingency environment, IAW AR 11-2.

TASK STANDARDS: Students should have basic knowledge of IC procedures and conduct IC inspection without error:



AGENDA



- DEFINITION
- LAWS
- APPOINTMENT CRITERIA
- REVIEW GUIDES
- WRITTEN EVALUATION
- OBJECTIVES
- PERCEPTIONS
- REALITY
- ENFORCERS
- STANDARDS
- CONTROL ENVIRONMENT
- RISK ASSESSMENT
- ACTIVITIES
- INFORMATION AND COMMUNICATIONS
- MONITORING
- MAKING IC WORK
- GOALS
- SOP
- CHECKLIST
- PLAN
- VISIT
- CONCLUSION
- QUESTIONS



INTERNAL CONTROL PROGRAM DEFINED



What is the Internal Control Program (ICP)?

- System of guidance, instructions, regulations, procedures, rules or other organizational instructions
- Intent is to determine the methods to be employed to carry out mission or operational actions or objectives and achieve intended goals
- ICPs support the effectiveness and the integrity of every step of a process and provide feedback to management
- Also known as Management Control Program



ICP DEFINED (Con't)

- Under OMB Circular A-123 (reference (c)), “...management controls should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. They should support the effectiveness and the integrity of every step of the process and provide continual feedback to management.” System of guidance, instructions, regulations, procedures, rules or other organizational instructions.



LAWS

- Budget and Accounting Act - 1921
- Accounting and Auditing Act - 1950
- Inspector General Act and Its Amendments - 1978
- Federal Managers' Financial Integrity Act (FMFIA) - 1982
- Chief Financial Officers (CFO) Act - 1990
- Government Performance and Results Act (GPRA) - 1993
- Government Management Reform Act (GMRA) - 1994
- Federal Financial Management Improvement Act (FFMIA) - 1996
- Information Technology Management Reform Act (Clinger/Cohen) - 1996
- Federal Information Security Management Act (FISMA) - 2002
- Improper Payments Information Act - 2002
- Sarbanes-Oxley Act - 2002
- Accountability and Transparency Act - 2006

A photograph of a surgical team in an operating room. Four surgeons are visible, wearing blue scrubs, blue bouffant caps, and surgical masks. They are all looking down with intense concentration at a patient who is not fully visible. The background shows the sterile environment of an OR with various medical equipment and bright overhead lights.

**Focus. Concentration. Critical thinking. STAT.
Attention to detail is our business.**

We count on you.



CHECK IT

what gets checked, gets done



INTERNAL CONTROL APPOINTMENT CRITERIA



- Prior to appointment, the Commander or Director must conduct an interview
- The technician must meet certain minimum criteria, such as:
 - Utmost Integrity
 - Have a good working knowledge of all functional areas within the units to be inspected
 - Pay Support
 - Banking % Disbursing
 - Fund the Force
 - Trusted Agent/Terminal Area Security Officer (TA/TASO)/System Security
 - Resource Management
 - All finance systems
- Be familiar with cash verification procedures and conduct one as necessary
- Be familiar with Post Payment Audit procedures and conduct one as necessary



REVIEW GUIDES



■ Internal Control Program Review Guides:

- The formal effort of an organization to ensure that IC systems are working effectively
- Includes the reporting of findings and conclusions to senior management
- Identifies which tasks or functions are vital and non-vital to the units mission success.
 - Vital - Noncompliance with vital ICs would have an undesirable impact on the accomplishment of the assessable unit's mission
 - Non-vital - minor noncompliance would not have a significant impact on accomplishment of the mission of the assessable unit. However, noncompliance with non-vital ICs may become significant if the noncompliance is extensive
 - **ICs may be considered vital at one organizational level, but not at another or more senior level. Classification of ICs as vital or non-vital is a management judgment that is subject to review by members of the audit community.



WRITTEN EVALUATIONS



■ Internal Control Evaluation/Written Report:

- A documented evaluation of the ICs of an assessable unit
- Used to determine whether adequate controls exist and are implemented to achieve cost-effective compliance
- Each level of management shall establish and maintain a process that identifies, reports and corrects IC weaknesses
- Weaknesses in ICs should be reported if they are deemed to be material to the units mission
- IC evaluations are of the following two types: Identification report, and Correction report



WRITTEN EVALUATIONS (Con't)



■ Internal Control Evaluation/Written Report:

- Identification Report. The review team may identify weaknesses in their ICs through a variety of objective sources. These sources should include but not be limited to: audits, inspections, investigations, management assessments, creditable information of nongovernmental origin, staff meetings, and IC evaluations.
- Correction Report. Circular A-123 (reference (c)) requires managers to take timely and effective actions to correct weaknesses in their ICs. Correcting IC weaknesses is an integral part of management accountability.
 - Tracking corrective actions should be commensurate with the severity of the weakness. Corrective action plans should be developed for all material weaknesses, and progress in implementing these plans should be periodically assessed and reported to management.
 - A determination that a material weakness has been corrected should be made only when sufficient actions have been taken and the desired results achieved.
 - The last milestone in each corrective action plan shall include correction validation.



IC OBJECTIVES

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations, policies and directives.
- Safeguarding of assets.
- Reasonable Assurance from or prevention of fraud, waste & abuse.
- Separation of duty



IC PERCEPTIONS

Internal Controls Are Perceived As -

- A bean-counter, financial or auditing function
- Too administrative, not operational - *“just pay it and let accounting figure it out”*
- Not critical to mission accomplishment
- Not important to the warfighter
- A paperwork exercise



***How do we better communicate
the importance of effective
internal controls?***





IC Reality



- # Ensure Compliance with Policies, Directives, Procedures, Laws and Regulations
- # Ensure Reliable Management Information
- # Improve and Streamline Business Practices
- # Safeguard Resources



IC ENFORCERS

- # Soldier's
- # NCO's
- # Officer's
- # Civilian's



IC STANDARDS

- Internal Control environment
- Risk assessment
- Internal Control activities
- Information and communications
- Monitoring



CONTROL ENVIRONMENT



- Maintain positive control
- Utmost Integrity and discipline
- Commitment to excellence of competency
- Management philosophy & Operating Style
- Understand organizational and office structure
- Understanding of Authority and Responsibility



RISK ASSESSMENT

- # Identify Risks
- # Estimate significance
- # Assess likelihood
- # Determine how to manage risk



IC ACTIVITIES

- # Policies and Procedures
- # Develop Review Guides
- # Techniques and Mechanisms
 - Separation of duties
 - Approvals, authorizations, verifications, reconciliations
 - Physical security
 - Documentation



INFORMATION AND COMMUNICATIONS



- # Relevant
- # Reliable
- # Timely
- # Effective Communication
- # Up, Down, Sideways



MONITORING

- # Regular supervisory activities
- # Utilize Review Guides
- # Conduct Unannounced Cash Verifications
- # Update policies and procedures



MAKING IC WORK

- # Goals
- # SOP
- # Checklists
- # Plan
- # Execution



IC GOALS

- # Who - FM Units
- # What – What does the Commander/Director want to accomplish
- # When – Plan, Leadership
- # Where – In theater
- # Why?????????
- # How – Assistance visits and reviews



WHO



- # Disbursing (Agents, Cashiers, etc)
- # Commercial Vendor Services
- # Military Pay
- # S1
- # S2
- # S3
- # S4
- # Everyone!!!!!!!!!!!!!!



WHAT - TYPES OF REVIEWS



- # Cash Verifications
 - Verify Accountability of DD Form 2657/2665
- # Operational Reviews
 - Evaluate overall processes
- # Post Payment Reviews
 - Verify accuracy of documentation
- # Special Reviews
 - (one time reviews on single focus topic,
 - e.g. Paying Agents)
- # Courtesy Inspections
 - Performed prior to initial OR
- # Assistance Visits
 - Help fix a problem – requires specialized skills



WHEN

- # Quarterly
- # Annually/Semi-Annually
- # Unannounced
- # Regulatory
- # Specific Requests



WHERE

- # At the unit
- # At the office
- # Outside sources (Office that submit documents)
- # Wherever activity occurs



WHY

Law

Good Stewards of Taxpayer Funds

- Funds are used for intended purpose
- Revenues and expenditures are accounted for and recorded
- Funds are safeguarded against fraud, waste, abuse, loss, theft and unauthorized use
- Programs are in compliance with applicable regulations and laws
- Auditability Readiness



HOW



- # Policies
- # SOP
- # Checklists
- # Plan
- # Execution



IC SOP



- # Policies
- # Responsibilities
- # Procedures
- # Reporting Requirements
- # Leader Driven



IC PRE-CHECKLISTS

- # Fair & Equitable Assessment
- # SOPs
- # Separation of duties
- # Access as needed
- # Maintenance of Records
- # Ratings
 - Yes
 - No
 - N/I
 - N/A



INTERNAL CONTROL PLAN



- Brief, written plan (updated as necessary)
- Indicates the number of scheduled and accomplished IC evaluations
- Identifies the units and progress toward accomplishment of annual program requirements
- The data contained in, or summarized by, the plan must be consistent with information reported on the Annual Statement of Assurance
- The plan does not need to be lengthy and any format may be used, so long as it addresses IC evaluations throughout the organization
- The plan must convey, with a reasonable certainty, the knowledge that the objective has been accomplished



CONDUCTING THE IC VISIT



- # Coordination
- # Communication
- # Following the Plan
- # Follow up

“What gets checked, gets done”



CONDUCTING THE IC VISIT



- # Plan
- # Schedule
- # Travel
- # Required Items
- # In Brief
- # Types of Reviews
- # Checklists
- # Current Trends
- # Interviews
- # Grading
- # Documentation
- # Reporting
- # Out brief
- # Loss of funds



SCHEDULING

- ⚡ Schedules are only approximate
 - Impacted by travel
 - One team took 3 days to get to Fenty and 4 days to get back – for a cash count that took 45 minutes.
 - Flights to some remote sites are infrequent
 - Can run into issues
 - NEVER leave a site until done and documentation issued.
- ⚡ Work with FMC IC teams and FM SPO so they know the schedule
- ⚡ Use your operations cell to help with travel



REQUIRED ITEMS

■ DVD/CD disk(s) with:

- All FMC Policies, MOI/MOA, Directives
- DODFMRs
 - Vol 4 - Accounting
 - Vol 5 - Disbursing
 - Vol 7A - Mil Pay
 - Vol 9 - Travel
 - Vol 10 - Contract Payment Policy
- AR 11-37 - Army F&A QA Program
- DFAS IN 37-100
- DFAR/FAR
- OMB Circular A-123
- Other References identified by checklist
- Review Guide checklists



IN BRIEF

- # Commander, Section Chiefs, Invitees
- # Clear Communication Critical
- # Sets the tone for the visit
- # Attitude Critical
- # Purpose
- # Scope
- # Grading
- # Schedule



Theater Checklists



- # Company Disbursing
- # OTCnet
- # CVS
- # Customer Service
- # DA/DDO Disbursing
- # Eagle Cash Card
- # Treasury Checks
- # Reserve Pay
- # RIPTOA
- # General Disbursing
- # Finance Operations
- # In-Out Processing
- # Internal control
- # Paying Agents
- # Processing
- # Systems Administration
- # Travel
- # Local Pay
- # Cash Verifications
- # Internal Control



INTERVIEWING

- # Gain information about process –
- # Don't just look – see, don't just listen – hear and understand. Avoid assumptions
- # Interactive process
 - Strong listening skills – Individuals want to tell you how much they know if you let them.
 - Evaluate what you hear/see for validity
 - Colombo approach (avoid confrontation unless all else fails – generally a sign of BAD things)
 - Make unobtrusive notes – but do not hide
 - Praise strong points
- # If processes are broken assist – do not just note issues
- # Never assume they are wrong and you are right



GRADING

- # Green – Full compliance
- # Amber – Warning
- # Red – Non- compliance
- # Be consistent in grading from site to site.
- # Considering adding critical items such as:
 - Failure to balance completely
 - Processes not documented (NO SOPs)



DOCUMENTATION

- # Gather supporting documents for areas of concern or interest.
 - DDS user list and screen print of access rights
 - Agent list with date of last DD 1081
 - CVS reports
- # If it is not documented it is hard to support
- # If not documented – not done.



OUT BRIEF

- # Commander, Section Chiefs, Invitees
- # Formal Briefing/Out brief
- # Concise findings
- # Grading
- # Evaluators
- # Findings
- # Typed Checklists



REPORTING PROCESS

- Always ensure factual accuracy and agreements with facts prior to issuing.
- At end of Review provide
 - Documented Out Briefing/Slide Presentation
 - Typed, completed checklists
 - Draft report if done
- Upon return to FMSC/FMSU, review and finalize report IAW FMSC and FMSU policies



TYPICAL FMC IC SCHEDULE



- # TOA
- # 2-3 Weeks – Det Commander Review
- # 30 – 45 Days – Co IC Team Review
- # 45 – 60 Days – FM IC Team Review
- # Left Field
- # Assistance Visit



CURRENT TRENDS

Operational Review Focus

- Disbursing, CVS and Milpay
- Smaller reviews of Eagle Cash, TASOs

Overall results positive

Common areas of concern

- Physical security and key control
- DDS access
- Cross training plans
- Pay agent documentation



LOSS OF FUNDS

- # Track loss of funds reports.
- # Look for consistent internal control weaknesses that should be addressed.
- # NCOIC should report to OIC any new loss of funds and IC related concerns based on loss.



CONCLUSION

- # The Internal Control team is the first line of defense for the FMC.
- # Key interaction with FM Co and sites.
- # Subject Matter experts.
- # Complete and defensible documentation.
- # Flexibility and professionalism.
- # Reports are visible to several levels.



CONCLUSION (con't)

- Always better to work with the Site than against them.
- Remember “I’m from IC and I’m here to help”
- Client site will then truly say
“ We’re glad to see you.” and then
“ Come back again”
- Consider the motto – “I will not be a barrier”



INTERNAL CONTROL PROGRAM



✓ CHECK IT

What gets checked, gets done

Every penny is precious

Be accurate

Be efficient

Be proud of your profession

Remember...the War On Terror...is one America can't afford to lose.



Questions???